

Message Text

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ACTION EA-12

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COMMERCE FOR MEPD

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TAGS: BENC, RP
SUBJ: MAJOR PROJECT: DBP SHIPPING PROJECT II

REF: A. 10FAM 164.1, B. 77 MANILA 19020

1. PROJECT DESCRIPTION: PHASE II OF LOAN FINANCING ASSIST-

ANCE TO PRIVATE INTER-ISLAND SHIPPING COMPANIES FOR
ACQUISITION OF NEW AND USED SHIPS, MAJOR REPAIRS, AND
CONVERSIONS OF EXISTING SHIP. AMOUNT SOUGHT - \$50 MILLION.

2. STATUS. THE SECOND SHIPPING LOAN TO THE DEVELOPMENT

BANK OF THE PHILIPPINES (DBP) IS SCHEDULED FOR APPRAISAL
BY IBRD SOMETIME IN OCTOBER PENDING RESOLUTION OF SOME
ISSUES, INCLUDING FINAL DETERMINATION OF RELENDING
RATES TO ENDUSERS, BY A GOP INTER-AGENCY COMMITTEE FORMED
TO STUDY THE CONSOLIDATION OF GOVERNMENT-HANDLED
SHIPPING LOANS AND STANDARDIZE ACTION OF RELENDING RATES.
THE COMMITTEE IS COMPOSED OF REPRESENTATIVES FROM THE
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY (NEDA)
MARITIME INDUSTRY AUTHORITY (MARINA), PHILIPPINE PORTS
AUTHORITY (PPA), AND DBP.

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2. THERE HAS BEEN AN ATTEMPT TO RESOLVE THE PROBLEM
DISCUSSED IN REFTEL. THE LOW UTILIZATION RATE OF THE
INITIAL IBRD-FINANCED \$20 MILLION DBP CREDIT LINE (5-16 YEAR
LOANS WITH 16 PERCENT INTEREST RATE) WAS ATTRIBUTED TO
ITS UNCOMPETITIVENESS COMPARED TO THE LENDING POLICY
OF THE NATIONAL DEVELOPMENT CO. (NDC), WHICH GRANTED

8 PERCENT LOANS WITH 15 - 20 YEAR MATURITY PERIODS FROM AN 8-YEAR, 9.5 PERCENT CREDIT LINE. THE \$80 MILLION NDC LOAN (IN THE FORM OF SUPPLIERS' CREDIT) WAS ARRANGED BY KLOECKNER INA OF WEST GERMANY EARLY 1977. CRITICISM BY NEDA AND THE CENTRAL BANK MONETARY BOARD, HOWEVER, LED TO A PRESIDENTIAL ORDER TO FREEZE THE KLOECKNER LOAN AND RENEGOTIATE ITS TERMS BECAUSE THE NDC WOULD LOSE ON IT.

3. PROSPECTS: OBSERVERS SAY IT IS LIKELY THAT THIS NEW IBRD LOAN WILL BE RELENT AT 10-12 PERCENT, THE SAME RATE SUGGESTED BY NDC IN ITS PROPOSAL TO HANDLE ALL LOANS TO THE SHIPPING INDUSTRY, INCLUDING THE UNUSED PORTION OF THE FIRST DBP CREDIT LINE WITH IBRD, AND THE KLOECKNER LOAN. THE NEW RATE WOULD BE HIGH ENOUGH TO PUT THE NDC CREDIT LINE ON A COST-RECOVERY BASIS AND LOW ENOUGH TO STIMULATE AVAILMENT OF THE DBP CREDIT LINE. THE SECOND CREDIT LINE MAY ALSO FINANCE CONSTRUCTION OF SHIPYARDS AND PORTS, ACCORDING TO MISS OFELIA CASTELL, DBP PROJECT MANAGER OF THE SHIPPING PROJECT. THE DETAILS, HOWEVER, STILL HAVE TO BE IRONED OUT BY THE COMMITTEE IN PREPARATION FOR THE WB APPRAISAL MISSION LATE THIS YEAR. THE WB HAS SUGGESTED THAT A STUDY OF THE SHIPYARD INVESTMENT REQUIRED BE MADE IF THE SECOND LOAN PROJECT

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IS TO INCLUDE LOCAL CONSTRUCTION OF NEW SHIPS FROM IMPORTED MATERIALS. THE STUDY WILL INCLUDE PLANS TO PROVIDE SUCH INVESTMENT, INCLUDING FOREIGN SOURCES.

4. OPPORTUNITIES FOR U.S. BUSINES: ALTHOUGH THE

DBP STOPPED CONSIDERING INTERNATIONAL SHIPBROKERS FOR THE PROCUREMENT OF VESSELS UNDER THE FIRST PHASE OF THE DBP SHIPPING PROJECT, DBP SOURCES SAY IT IS LIKELY THAT THE STANDARD WB PROCUREMENT GUIDELINES INITIALLY ADOPTED FOR THE FIRST CREDIT LINE WOULD BE FOLLOWED FOR THE SECOND LOAN, WHERE NEW SHIPS ARE TO BE PROCURED ON THE BASIS OF INTERNATIONAL COMPETITIVE BIDDING AND USED SHIPS ON THE BASIS OF QUOTATIONS SECURED BY DBP FROM INTERNATIONAL SHIPBROKERS. INTERNATIONAL SHIPBUILDERS WILL HAVE TO BE COMPETITIVE, AS LOCAL SHIPBUILDERS ARE EXPECTED TO ENJOY A PREFERENCE OF 15 PERCENT OF THE C.I.F. PRICE OF IMPORTED VESSEL. THERE MAY ALSO BE OPPORTUNITIES TO SUPPLY MATERIALS AND EQUIPMENT TO LOCAL SHIPBUILDERS AVAILING OF THIS CREDIT LINE.

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